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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

Number 27

THE MARRIAGE BOOM RECEDES

ONE of the nation's most important indexes of confidence and prosperity declined rather sharply in 1947, and indicates that it will decline still further in 1948. The marriage boom has begun to recede. From the peak year of 1946, marriages in 80 cities of 100,000 or more population dropped 13.7 per cent in 1947, and have dropped another 11 per cent during the first quarter of 1948. The marriage rate as an indicator of coming business conditions is certainly not infallible, nor does the declining rate mean that we are on our way into a depression. For example, the marriage rate started dropping in 1924 and continued to do so until 1933, yet during the twenties the country experienced high prosperity in most business lines. While the entire economy is eventually affected by a continually falling marriage rate, some lines such as residential construction, house furnishings, home appliances, etc., naturally feel its influence somewhat sooner than others.

In times of depression a "marriage reserve" is usually built up, and as conditions improve these deferred marriages begin taking place and increase the marriage rate tremendously. In times of war, the impact of this increase is frequently not felt at once because so many of the marriages involve servicemen who for one reason or another are not able to set up housekeeping until the war is over. The effects of the marriage boom on the construction and allied industries will be discussed more fully in a subsequent bulletin.

In studying the marriage rates in the 80 cities shown on pages 236 through 242 it is well to consider two points which have had a drastic influence on the rate of certain cities. 1. During recent years more States have passed health laws or have established waiting periods for marriages. Cities located near the border in these States will frequently show a rapidly falling marriage rate as couples cross the border to Gretna Greens located in less exacting States. Conversely, a border city may show an increasing marriage rate as couples from neighboring States seek to evade the health laws and waiting period. This influence on marriages is quite noticeable in Wilmington, Delaware, which showed a 39 per cent decrease in 1947 from the 1946 figure, and in Kansas City, Kansas, which showed a drop of 53 per cent for the same period. (Kansas City, Missouri, conversely recorded an increase in marriages of 34.6 per cent in 1947 over 1946.) Both Kansas and Delaware passed premarital examination laws which became effective in July 1947. 2. The location of training camps and embarkation ports for the armed services usually boosts the marriage rate of those cities near which they are located. Of the 80 cities shown in this study, six show a decreasing rate since 1945, indicating that marriages of servicemen played a dominant role in building up the rate. These six cities which showed declines in 1946 and 1947 are Jacksonville, Tampa and Miami, Florida; San Francisco and San

(cont. on page 246)

REAL ESTATE TAXES, 1942-1948

IN the "As I See It" Bulletin for May 31, 1948, we showed the changes in selling prices of residences from 1942 to 1948 for 143 cities of the United States. This bulletin was based on a questionnaire sent to at least 10 prominent real estate operators in each of 160 cities in the years 1942, 1946 and 1948. This questionnaire pictured and described the standard six-room frame house which we have used for our construction cost studies since 1913. The detailed replies were averaged and tabulated in the "As I See It" Bulletin referred to above, but the summaries on the tax implications were not completed in time to be included in that report. The table on the page opposite summarizes the tax information accumulated in this study.

Many States have homestead tax exemption and in our tables we have differentiated in the dollar taxes between properties occupied by the owner and properties occupied by a tenant. The average tax in all non-homestead exemption cities was \$259 in April 1948, with \$170 as the average tax beyond the city limits. This compares with \$179 in 1942, and with \$114 at that time beyond the city limits. Within the city limits taxes as shown by this survey have increased by 44.7 per cent, and in the suburban areas by 49.1 per cent. In the homestead cities the average tax on owner-occupied units in April 1948 was \$216, with \$99 in the suburbs. On all tenant-occupied units the average tax was \$229, with \$146 in the suburbs.

In our questionnaire we asked for the assessed value of the property as well as for the dollar tax load. The assessed value, however, is of relatively slight importance, since a high assessment with a low tax rate may give an average tax load, while a low assessment with a very high tax rate may give a high tax load. We are primarily interested, therefore, in studying the actual dollar taxes rather than the assessments.

There are two bases on which taxes can be fairly compared in different cities. The first is to express the tax as a percentage of the value of the property and the second, as a percentage of the gross annual rent. In expressing taxes as a per cent of the value of the property it is necessary to separate the cities with homestead tax exemption from those where all property owners pay at the same rate. In homestead tax exemption cities the average rate in April 1948 was 1.3 per cent on owner- and on tenant-occupied units. In the suburbs the rates were 0.6 per cent on owner-occupied units, and 0.9 per cent on tenant-occupied units.

In non-homestead tax exemption cities the average rate in April 1948 was 1.6 per cent on all units in the cities, and 1.1 per cent in the suburbs.

After studying over the replies made to our questionnaires in the 1942, the 1946 and the 1948 surveys, we have reached the following conclusions:

1. In many cities the tax load has now reached the point where it is a strong decentralizing factor. It is possible now on the average in those cities where homestead tax exemption is not in force to own a building in the county similar to its counterpart in the city, paying only 65 per cent as much in taxes as if the property were located within the city limits. In the homestead cities on owner-occupied units the average rate in the suburbs is 46 per cent of the rate in the city, and on tenant-occupied units the rate is 64 per cent. As the suburbs offer many advantages other than tax advantages, it is quite logical that most of the new building in the United States is taking

AVERAGE REAL ESTATE TAXES IN 143 CITIES ON A SIX ROOM FRAME RESIDENCE

CITIES WITH HOMESTEAD TAX EXEMPTION

	1942		1946		1948	
	City	Sub.	City	Sub.	City	Sub.
Value of house & lot	\$7,458	\$6,731	\$14,475	\$12,794	\$17,209	\$15,500
Monthly rent	\$ 63	\$ 60	\$ 92	\$ 76	\$ 125	\$ 103
Taxes, owner occupancy	\$ 132	\$ 61	\$ 182	\$ 93	\$ 216	\$ 99
Taxes, tenant occupancy	188	102	231	133	229	146
Taxes as % of value						
Owner occupancy	1.8%	0.9%	1.3%	0.7%	1.3%	0.6%
Tenant occupancy	2.5%	1.5%	1.6%	1.0%	1.3%	0.9%
Taxes as % of gross annual rent						
Owner occupancy	17.5%	8.5%	16.5%	10.2%	14.4%	8.0%
Tenant occupancy	24.9%	14.2%	20.9%	14.6%	15.3%	11.8%

CITIES WITHOUT HOMESTEAD TAX EXEMPTION

	1942		1946		1948	
	City	Sub.	City	Sub.	City	Sub.
Value of house & lot	\$8,079	\$7,676	\$13,644	\$12,700	\$16,250	\$15,500
Monthly rent	\$ 68	\$ 63	\$ 89	\$ 84	\$ 117	\$ 105
Taxes	\$ 179	\$ 114	\$ 229	\$ 141	\$ 259	\$ 170
Taxes as % of value	2.2%	1.5%	1.7%	1.1%	1.6%	1.1%
Taxes as % of gross annual rent	21.9%	15.1%	21.4%	14.0%	18.4%	13.5%

place on the fringe of our cities, with a progressive deterioration of the central city. As people move from the city to new homes on the fringe, it becomes necessary to collect higher taxes from those who remain.

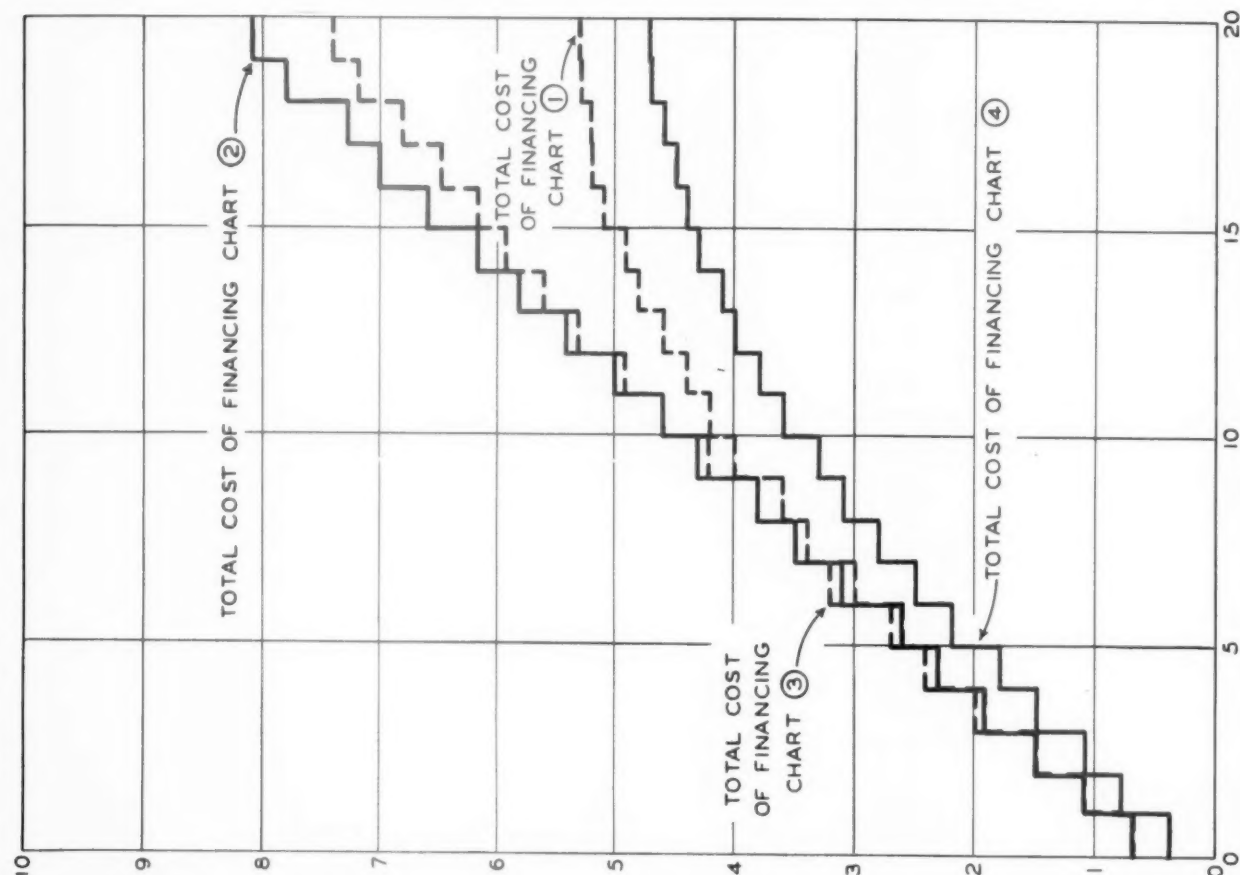
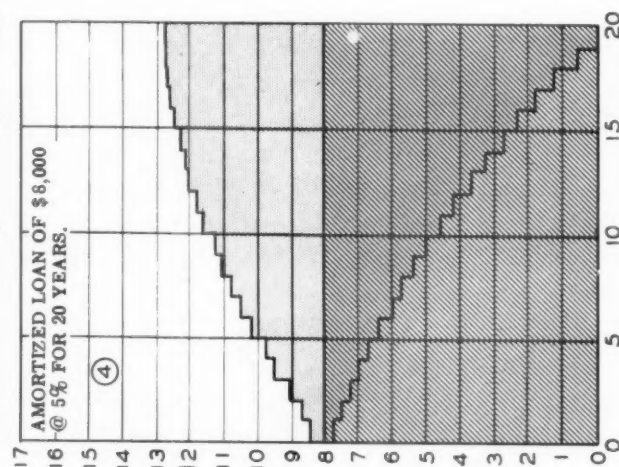
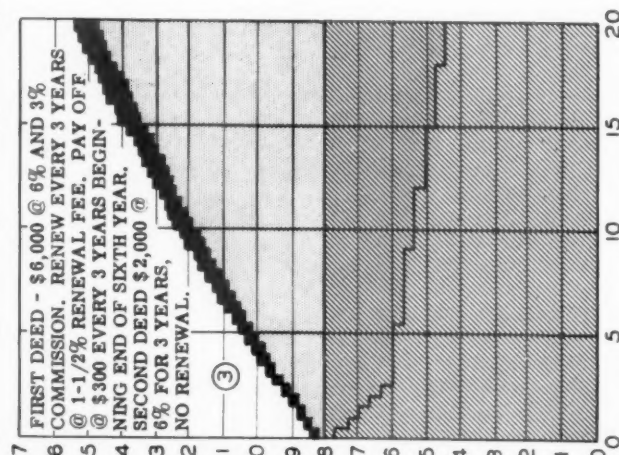
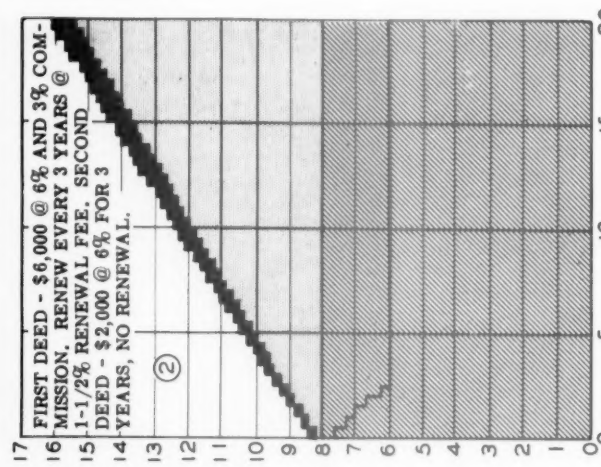
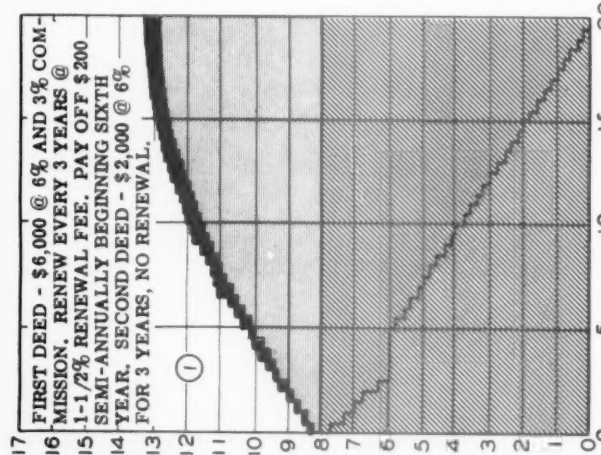
2. Homestead tax exemption is a subsidy to home owners, made at the expense of tenants who must carry more than their share of police and fire protection, street cleaning, garbage collection, etc. We have always opposed all subsidies, whether made to the farmer, to industry, to the home owner, or to the slum dweller.

3. While we are not in favor of homestead tax exemption, we are in favor of tax limitation.

4. Real estate assessments, in our opinion, will continue to rise during the next few years. Since most cities are desperate for sources of municipal funds, and since real estate sales prices have increased, it is inevitable that municipal authorities will attempt to raise assessments wherever they can in order to increase revenues.

MORTGAGE FINANCING COSTS

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THOUSANDS OF DOLLARS

MORTGAGE FINANCING COSTS

SEVERAL of our subscribers have asked us to compare present-day financing costs with those of the last boom. It is impossible to make a fair comparison on a general basis because the financing and mortgage pay-offs are entirely different in the two periods. During the last boom a 60 per cent loan was about as high as lenders would go on a first mortgage. Today, 80 per cent and 90 per cent loans are the rule. Monthly pay-offs were used to some extent by the building and loan companies but most people, after making a substantial down payment (40 per cent or 20 per cent plus a 20 per cent second mortgage) simply paid the interest on the first mortgage (in lieu of rent), and renewed the first mortgage whenever it came due, with little or no payment on the principal. Today, the amortized loan, with equal monthly pay-offs, is by far the more popular. The fact that interest varied considerably in different parts of the country must be considered in analyzing this comparison. For instance, in St. Louis the mortgage interest rate stayed around 6 per cent all during the boom, on Manhattan it was a shade lower, and on the West Coast the going rate was around 7 per cent. Since these differences in financing make a general comparison meaningless, we have chosen to show the three specific types of costs of a \$10,000 home financed by three specific types of old-style loans, compared with present-day financing of a \$10,000 home. The main difference in these loans is that the new type are paid up in 20 years whereas the old type seldom were. Inasmuch as we are comparing the finance costs of these loans, the old-type loans are extended through a 20-year period in order that their length will coincide with the length of the new type.

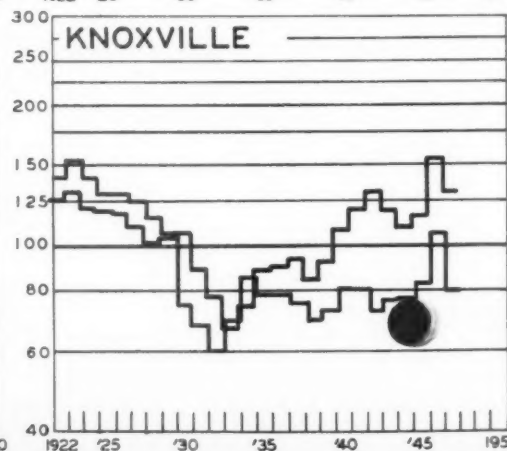
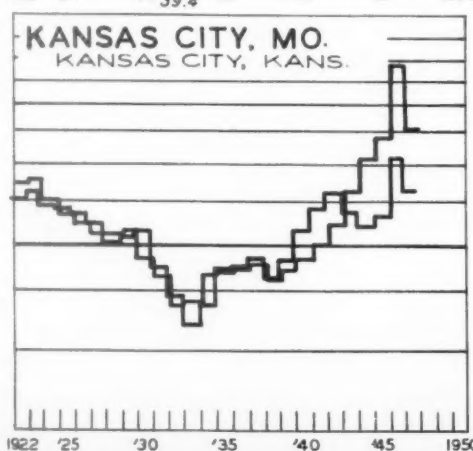
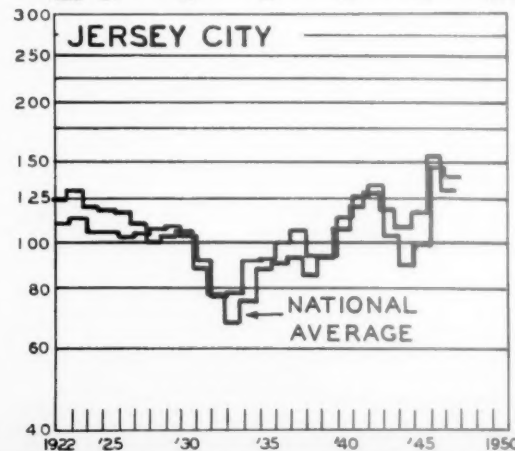
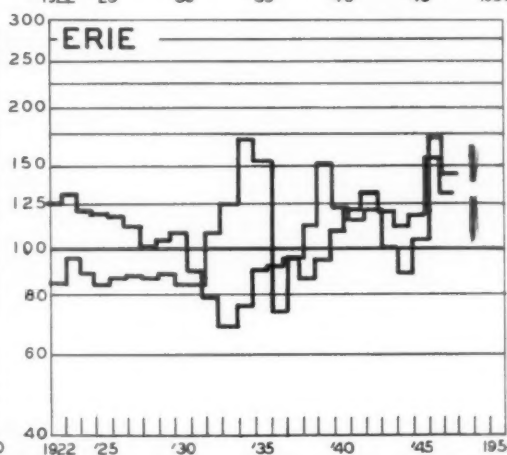
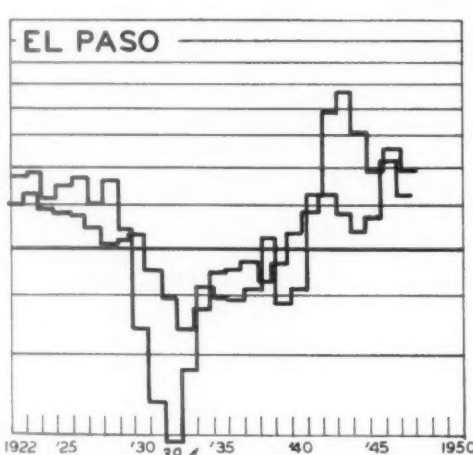
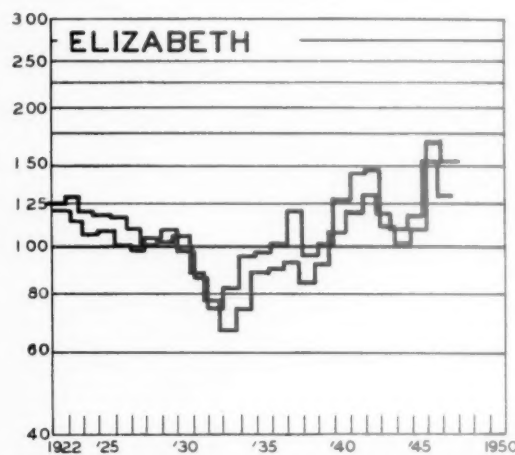
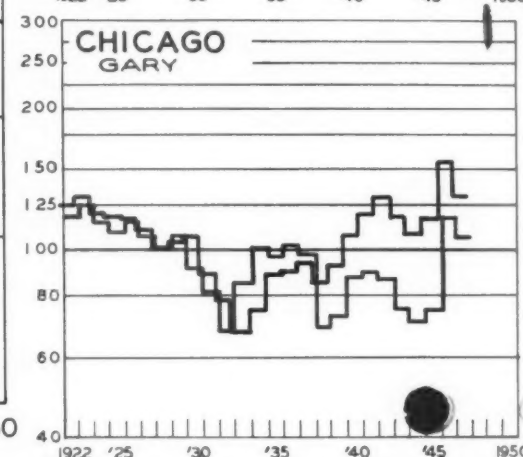
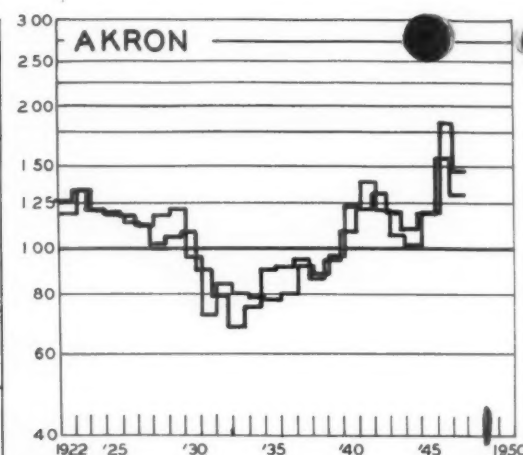
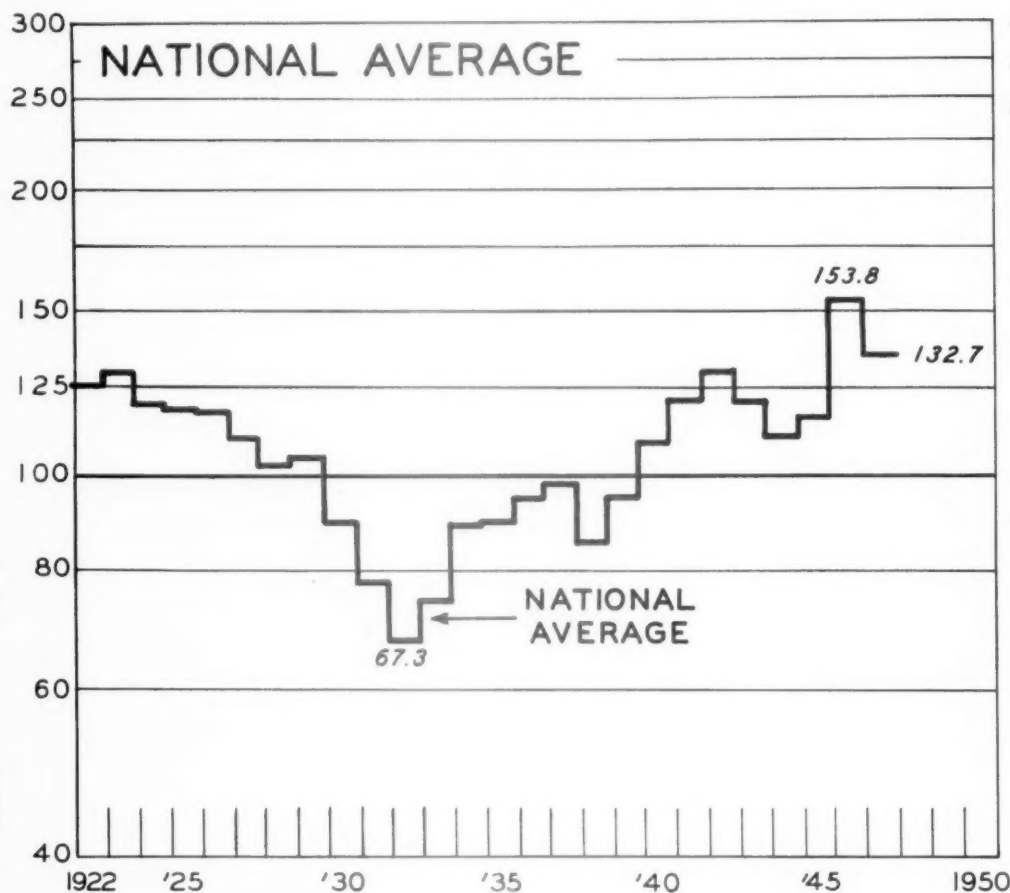
Chart 1 on the opposite page shows the financing costs of a \$10,000 home with a \$2,000 down payment. The \$8,000 loan is split between a \$2,000 three-year second mortgage at 6 per cent per year, and a \$6,000 first mortgage at 6 per cent. The first mortgage carries a commission of 3 per cent and is renewed every three years. Renewal fees are figured at 1-1/2 per cent. Pay-off on the first mortgage is \$200 semi-annually beginning in the middle of the fourth year. The total interest, commissions and renewal fees amount to \$5,310 at the end of 20 years, compared with \$4,672 interest charges on the modern twenty-year amortized loan (amortized loan shown on chart 4).

Chart 2 shows the same old-type loan with different financing. In this loan there is no pay-off on the first mortgage. In this case, after twenty years of paying only interest, commission and renewal fees, we see that the total financing charges amounted to \$8,130, compared with the \$4,672 charges on the amortized loan.

Chart 3 shows still a different way of financing the same old-type loan. In this loan the first deed was paid off at the rate of \$300 each three years beginning with the end of the sixth year. This loan would build up \$7,432.50 in financing costs at the end of a twenty-year period, compared with \$4,672 costs on the amortized loan.

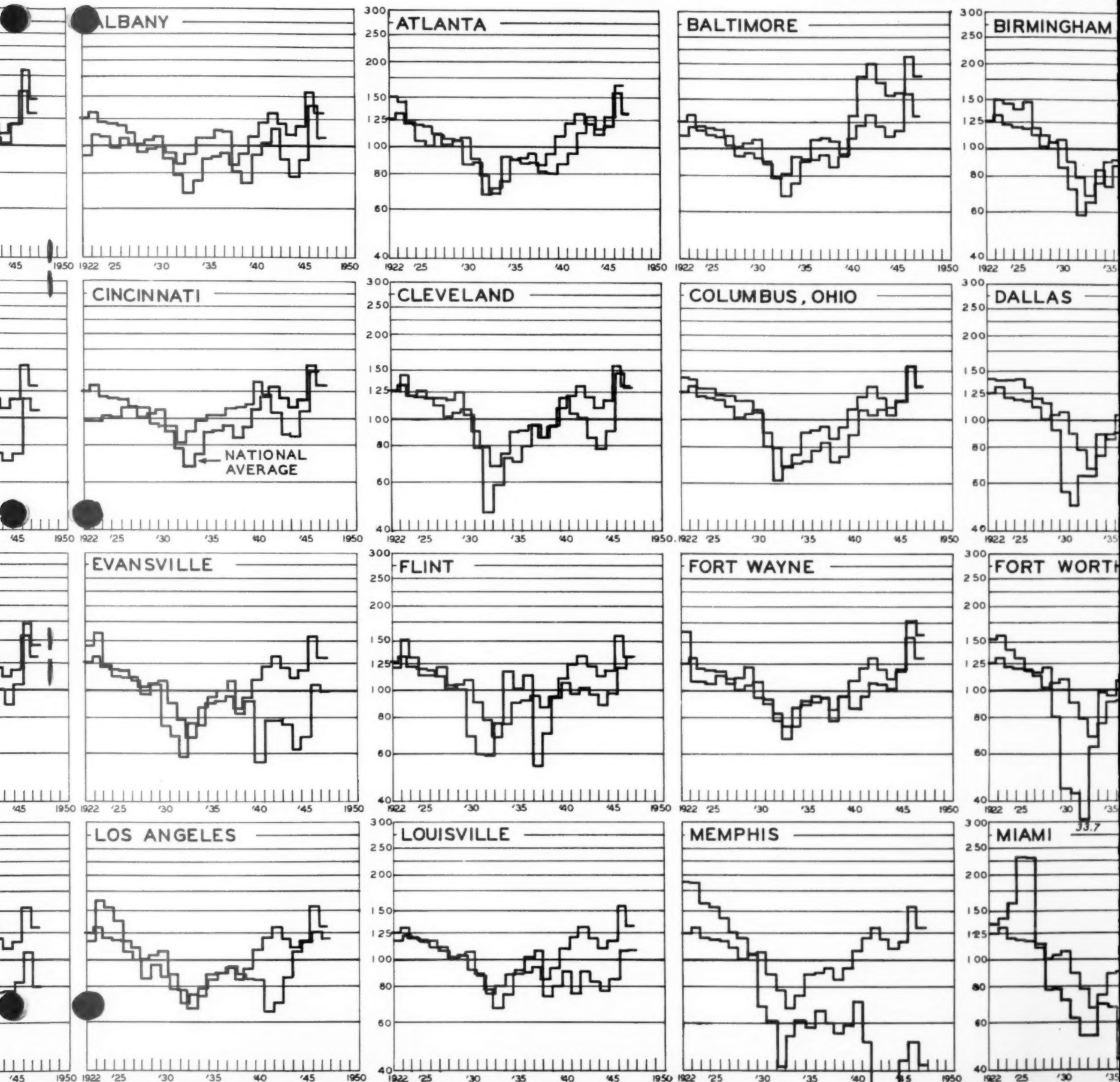
It can be seen from these comparisons that the financing charges on the old-type loans were generally higher than the charges on the amortized loans. This difference is caused by the fact that the charges on today's amortized loans are lower "by compulsion" in that monthly payments must be made on the principal, whereas principal payments on the old-style loans were usually voluntary or at least were not sought too vigorously. If the old-style borrower had the means and the inclination to pay off his mortgage, his financing costs would have been much less than they often were.

INDEX 1922 = 100



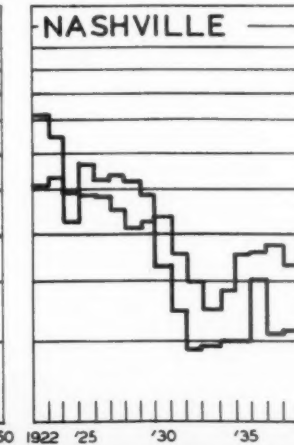
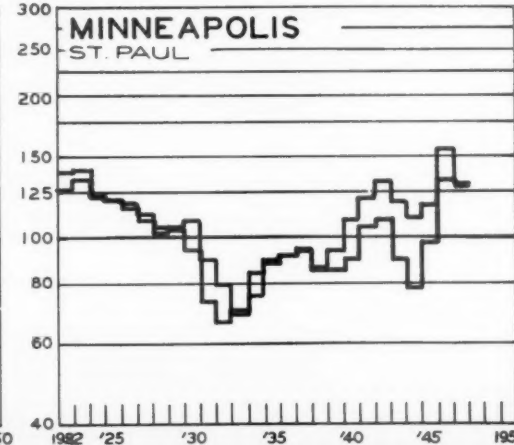
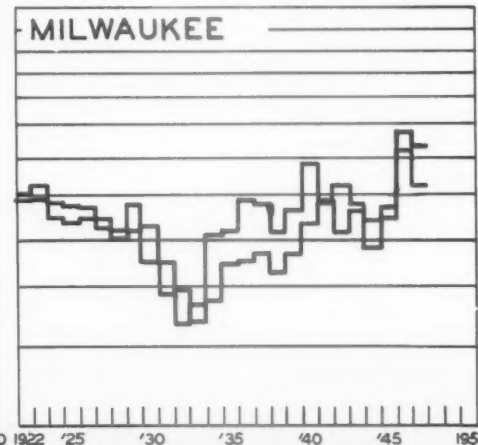
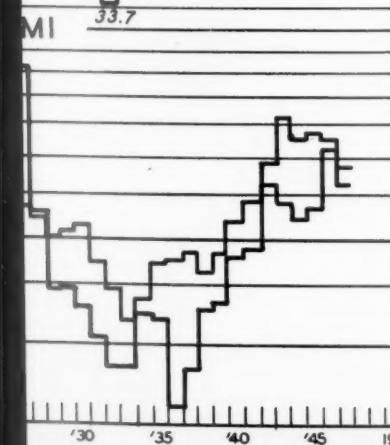
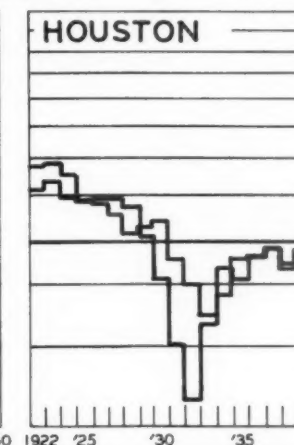
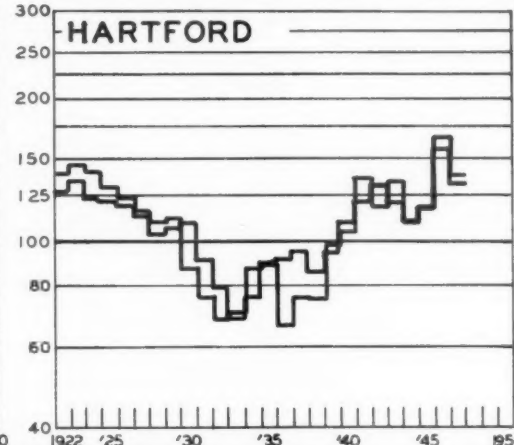
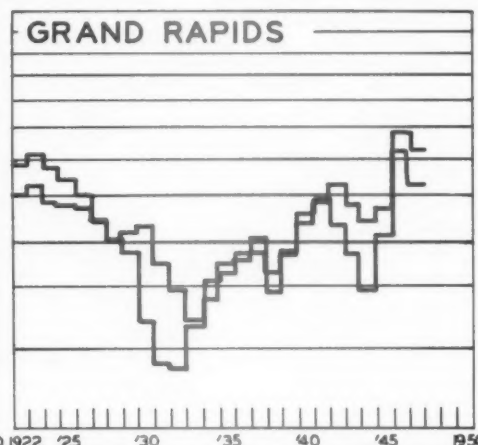
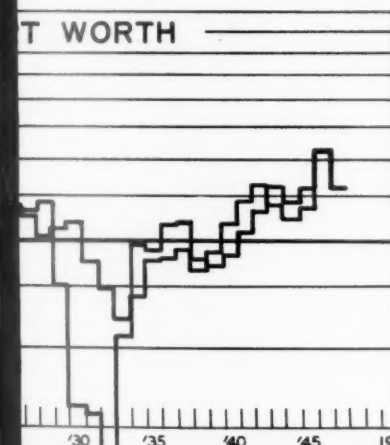
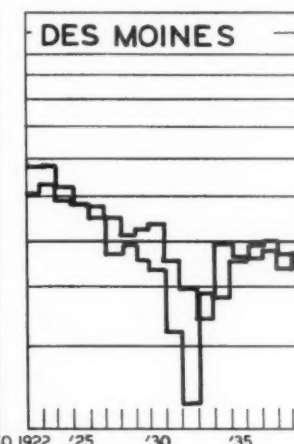
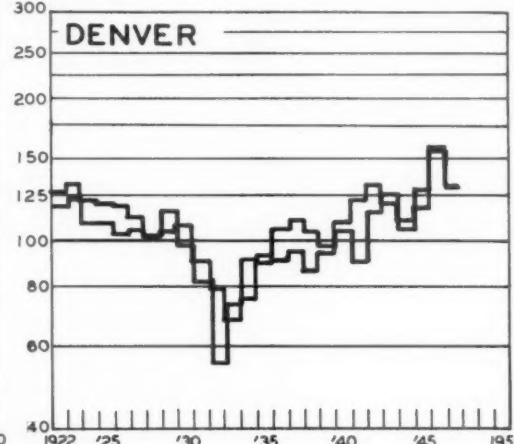
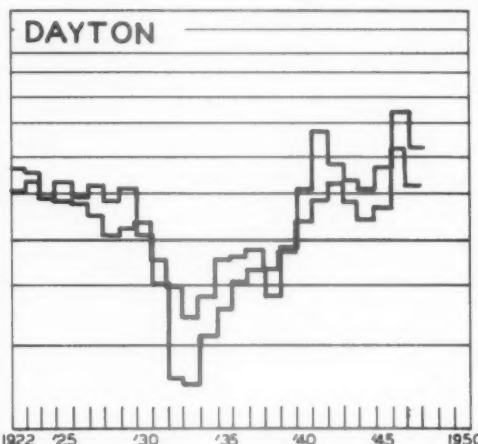
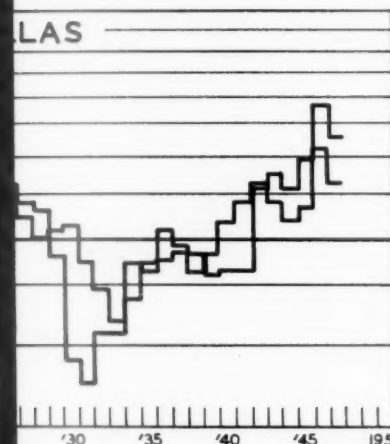
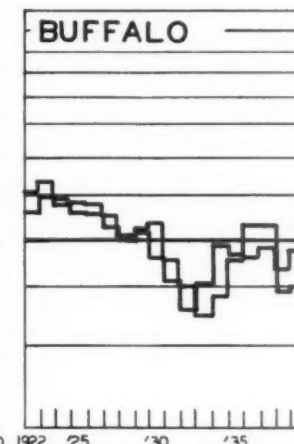
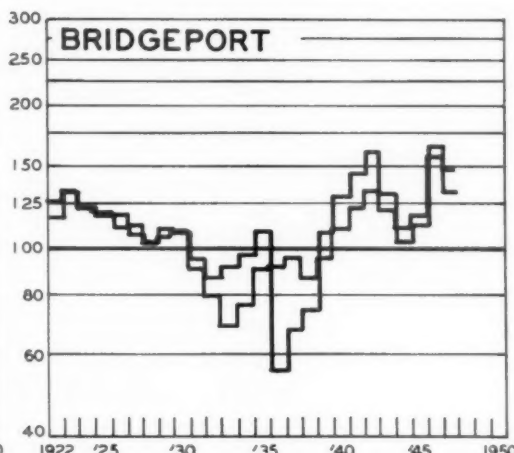
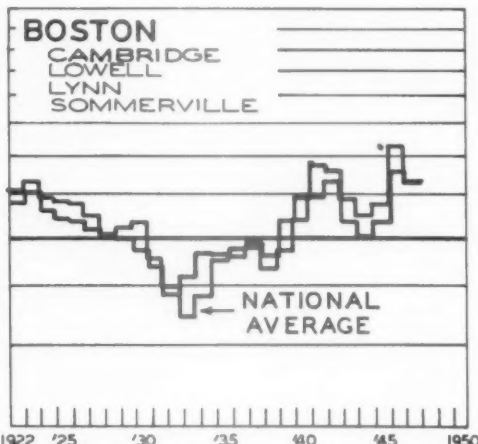
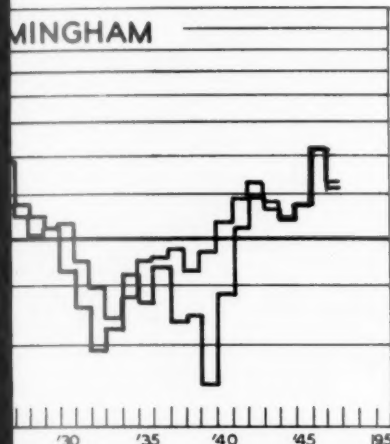
FLUCTUATIONS IN THE MARRIAGE RATE

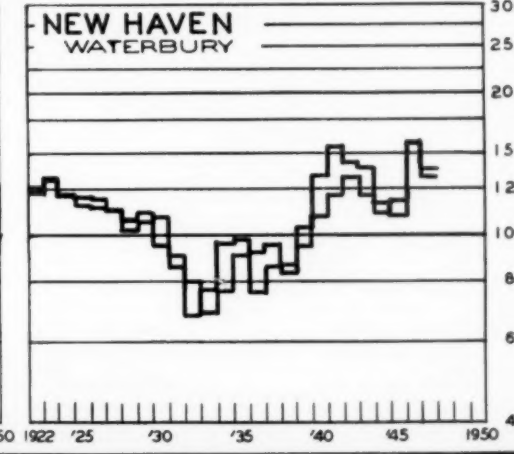
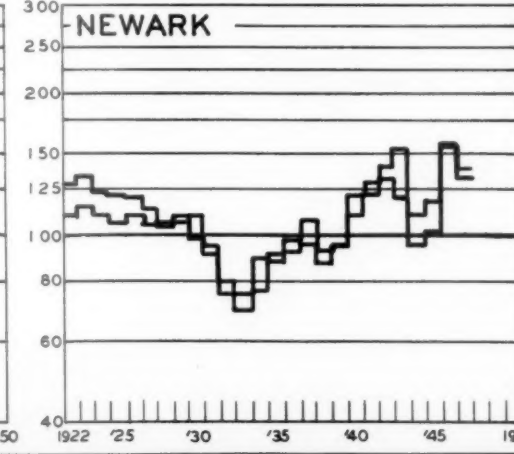
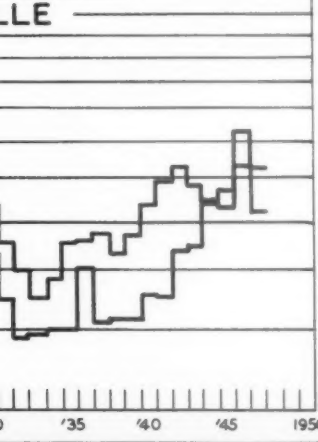
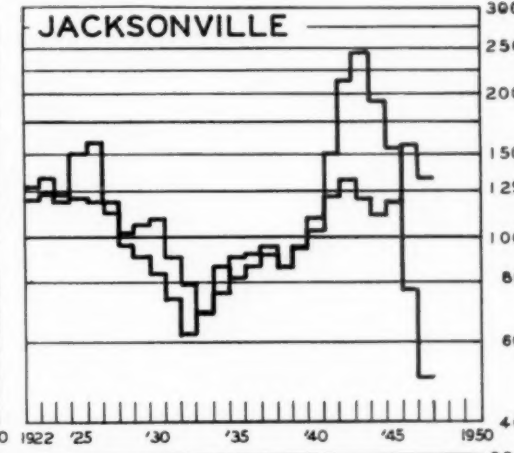
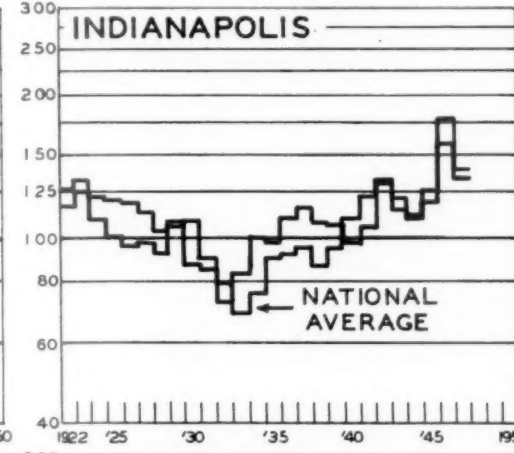
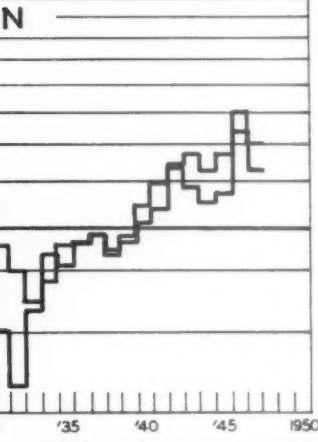
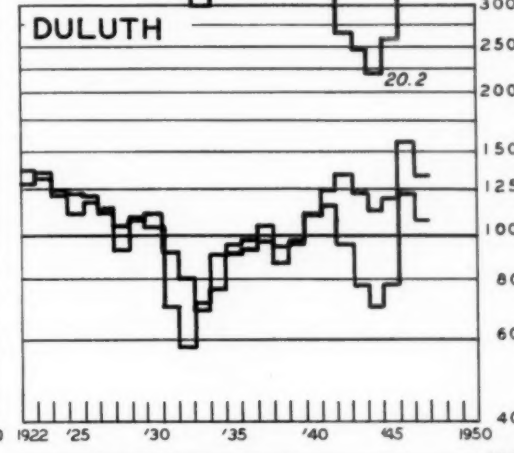
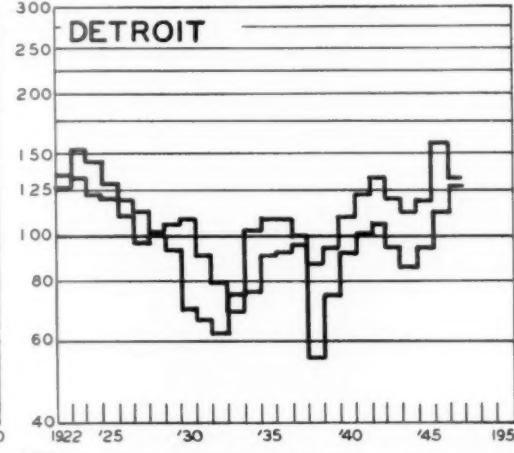
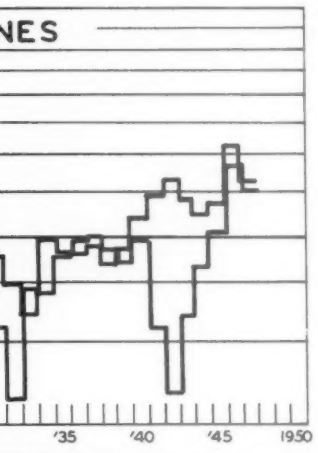
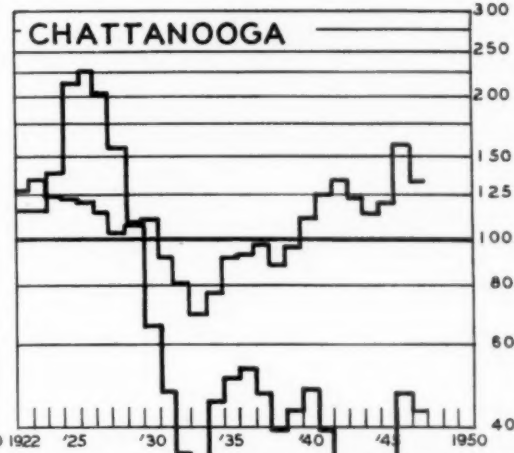
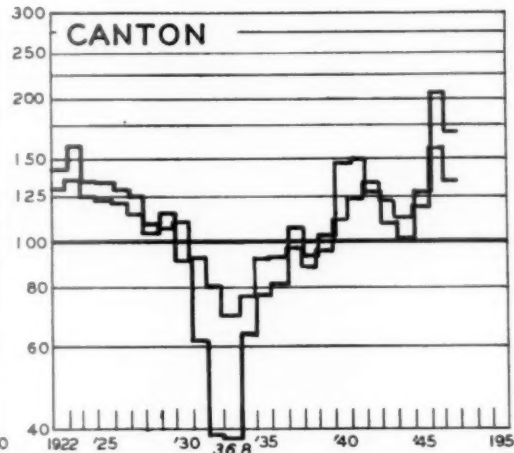
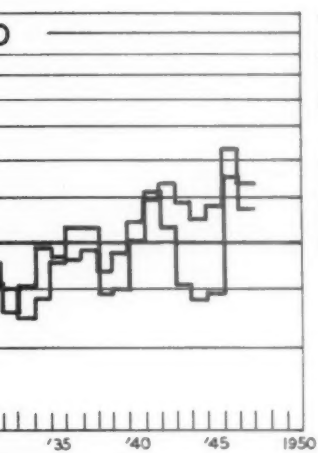
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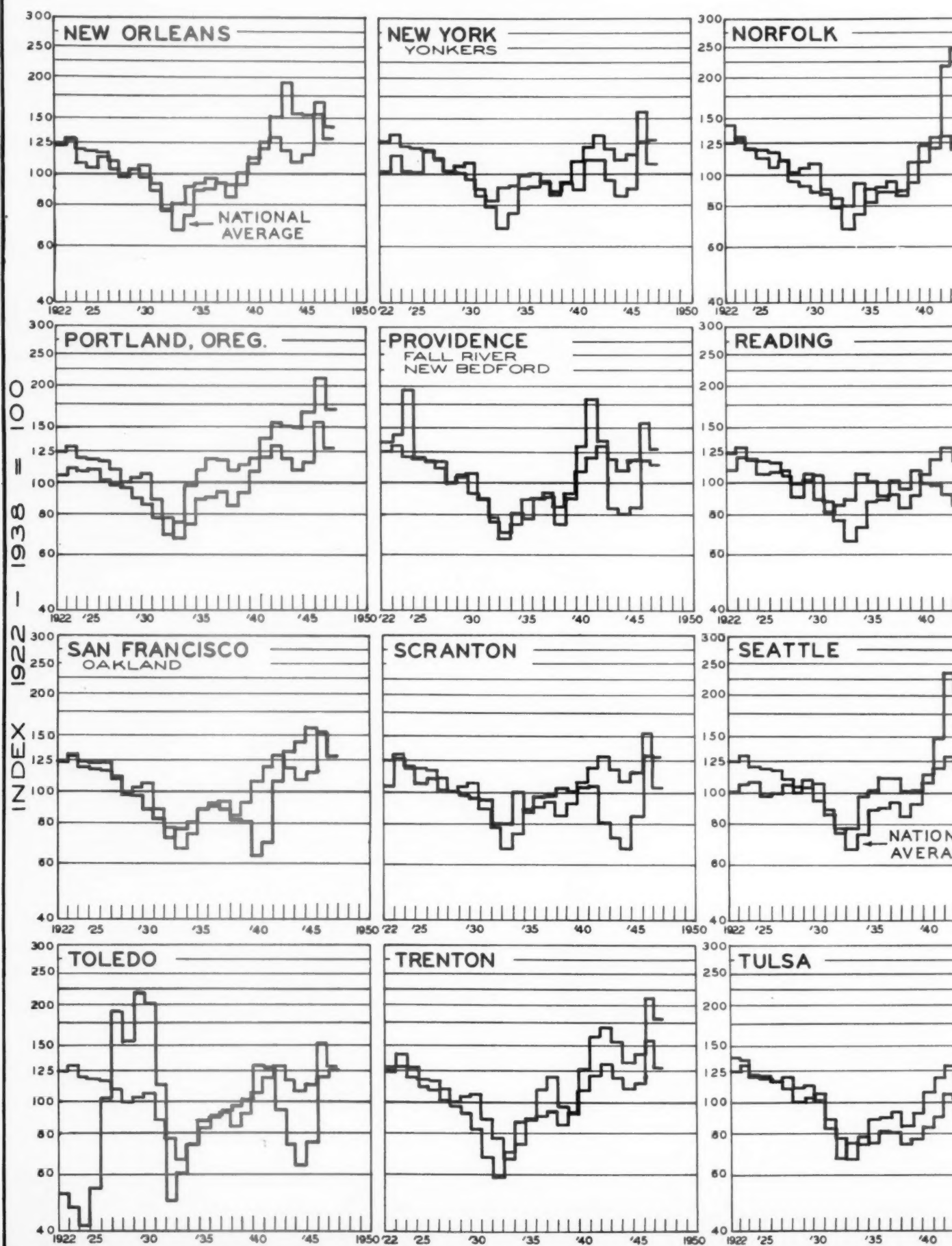
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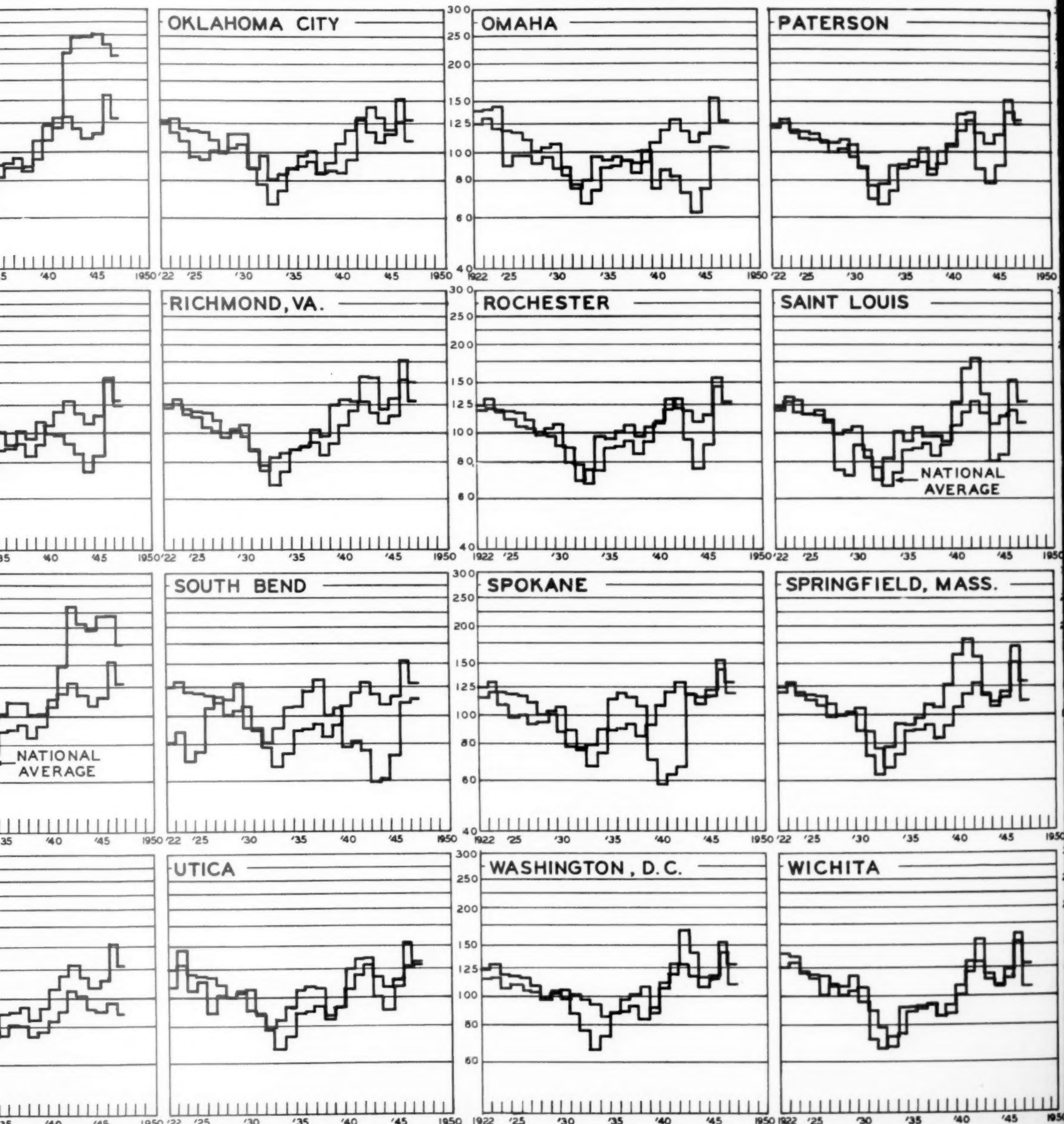
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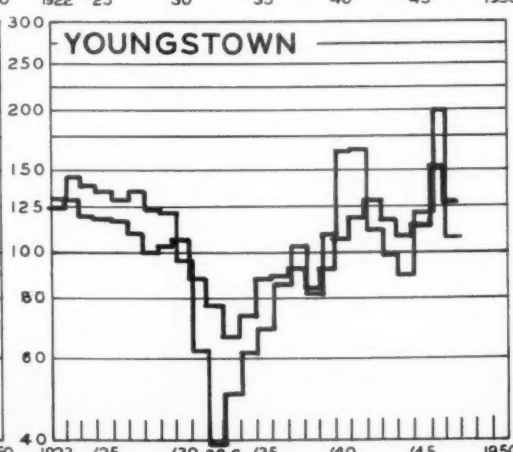
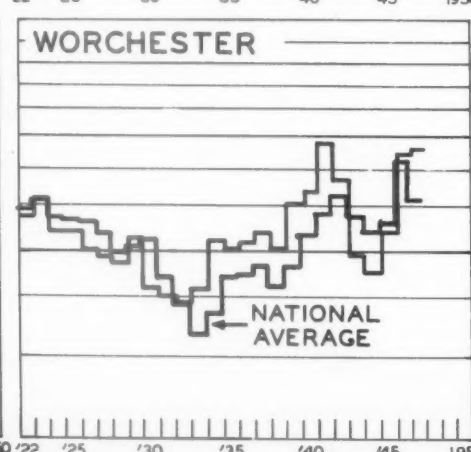
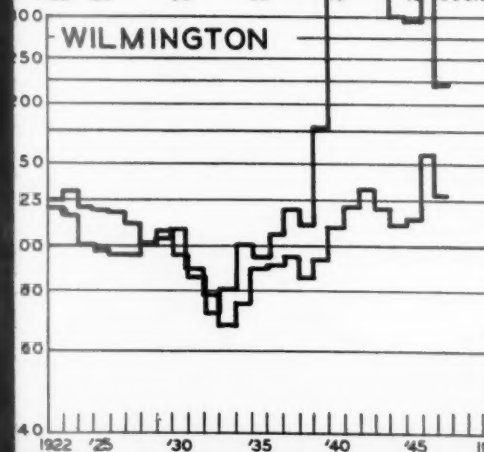
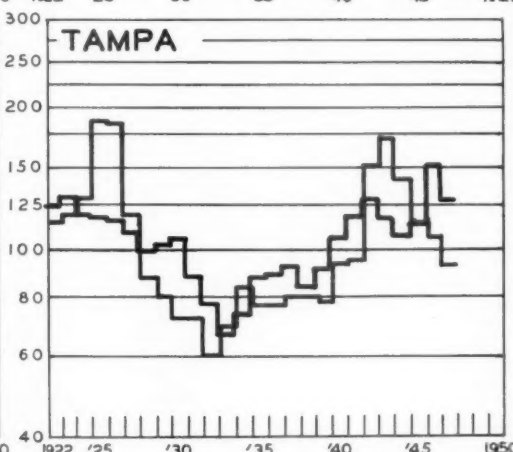
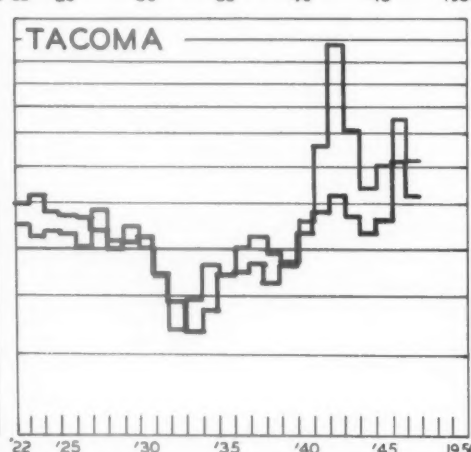
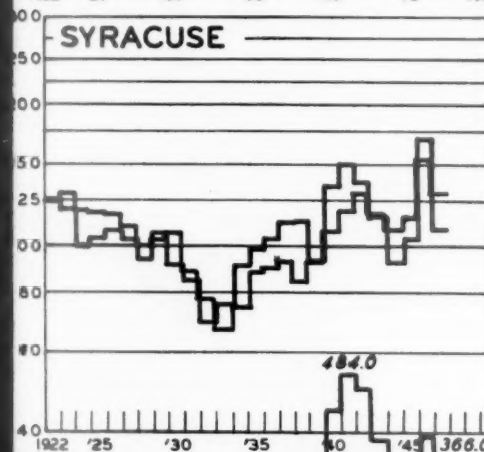
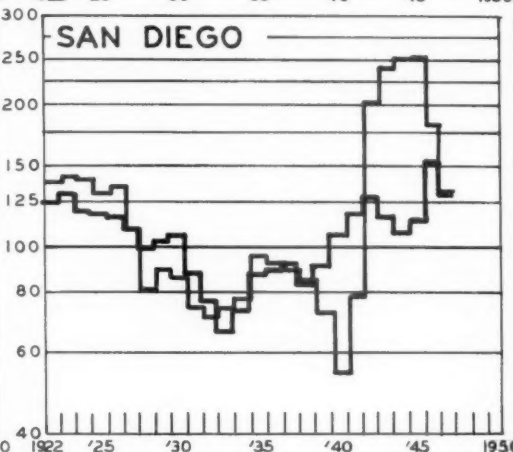
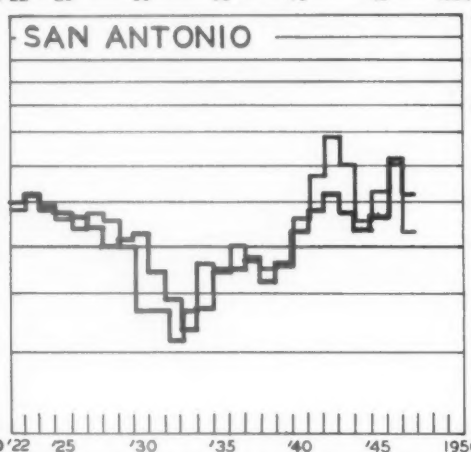
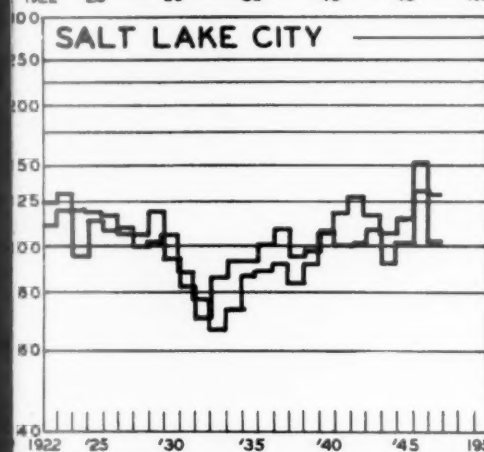
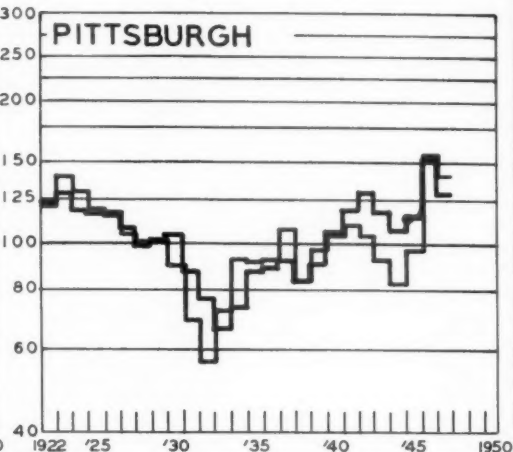
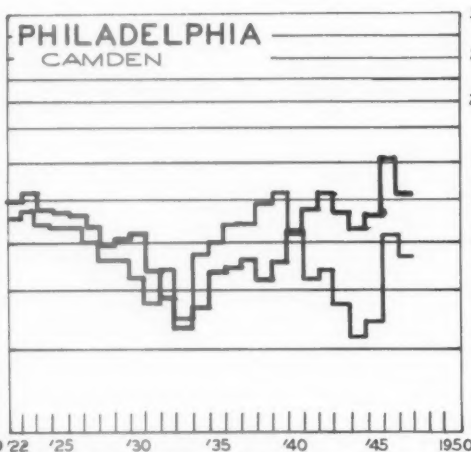
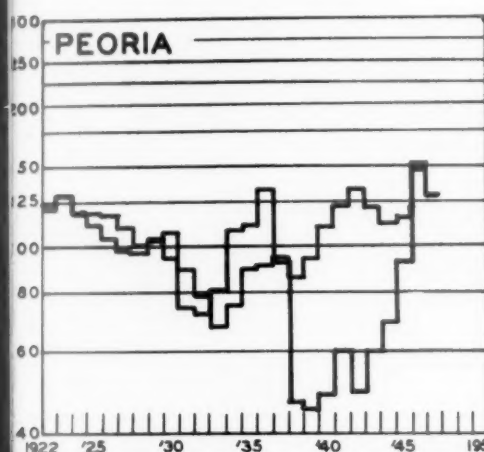


SITUATIONS IN THE MARRIAGE RATE IN PRINCIPAL

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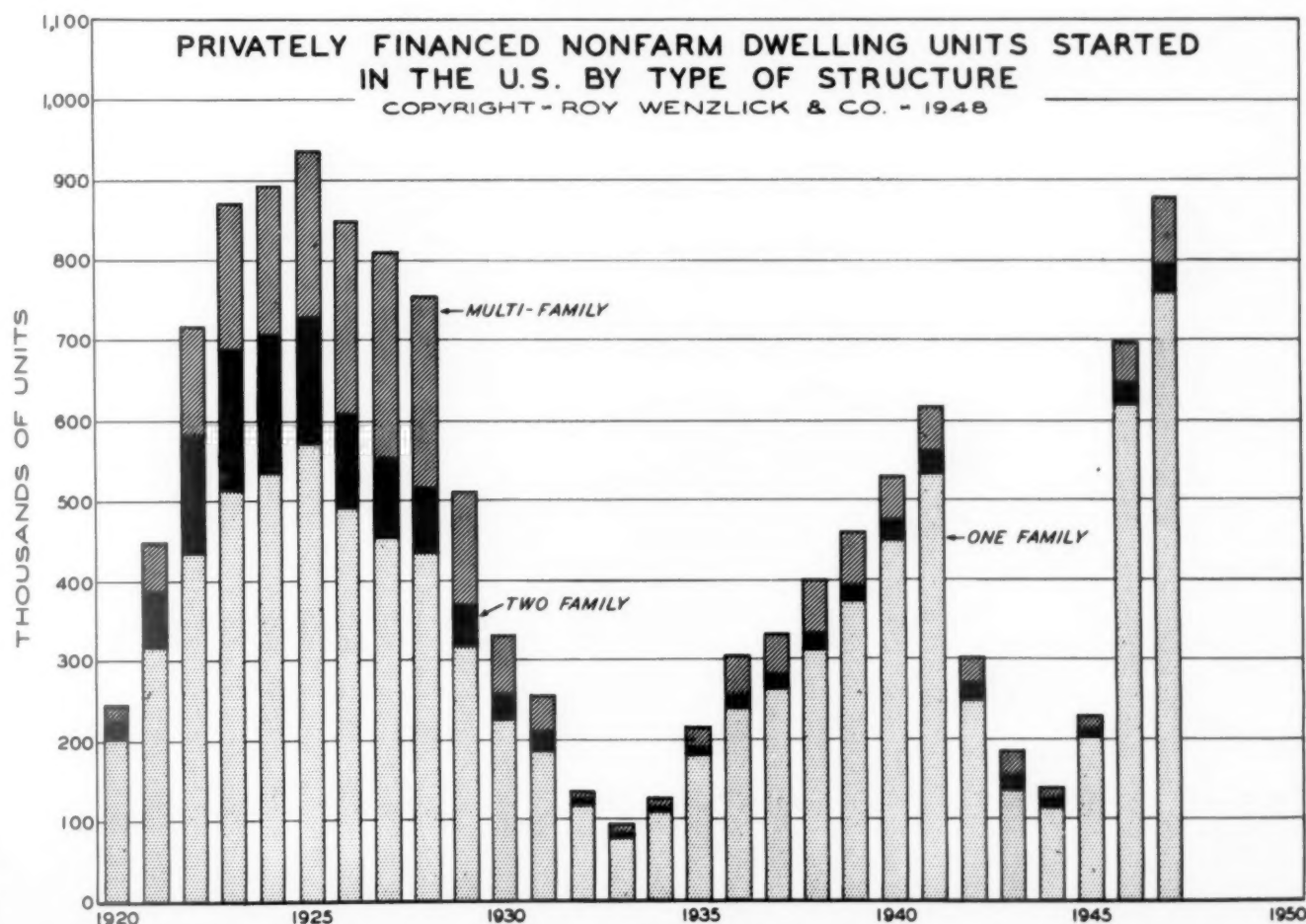


COMPARISON OF TWO CONSTRUCTION BOOMS

WHILE there is a rough similarity between the present boom and the boom of the twenties, there are several points on which there are marked differences. For one thing, the present boom got rolling more quickly after the war than did the last boom. The present activity in residential construction began to make headway in 1946, the year following the end of the war, when over 600,000 nonfarm dwelling units were put under construction, while the activity of the twenties took almost three years to grow to boom proportions. Another point of difference is the rate at which construction was started. Since the number of families is a dominant factor in the demand for residential construction, we figure the rate of residential construction on the basis of the number of housing units built per year per 1000 families: During the height of the last boom construction proceeded at a much more rapid rate than it is liable to reach during this one. In 1922, nonfarm residential units were started at the rate of 38.81 per 1000 nonfarm families. If that rate is reached during 1948, we will put some 1,260,000 units under construction. In 1923, 1924 and 1925 the rate per 1000 nonfarm families increased to the point that in order to equal it we would have to build 1,490,000 units in 1949, 1,520,000 units in 1950, and 1,555,000 units in 1951. Needless to say, we believe that the present boom will not reach these proportions.

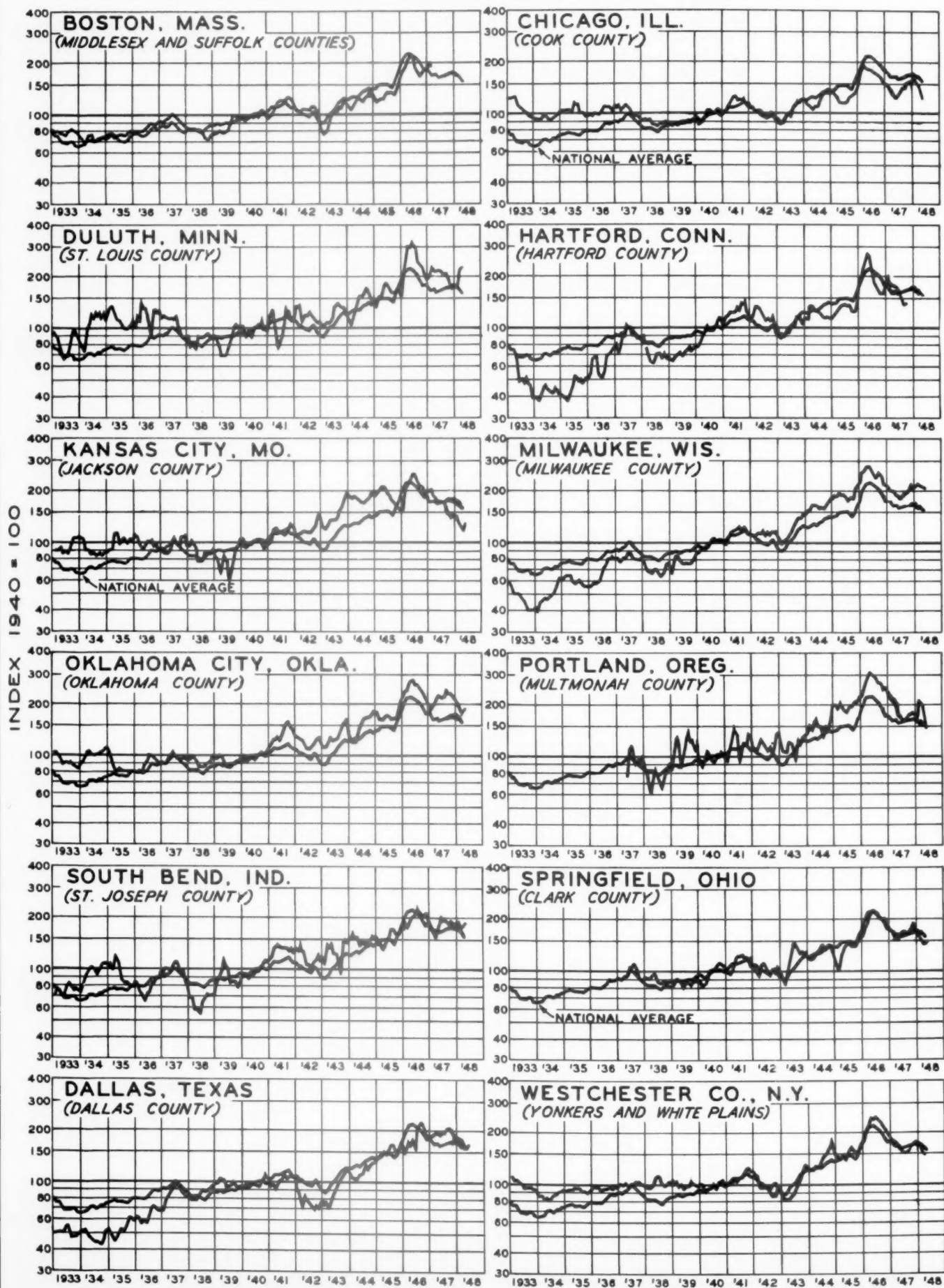
A third point of difference (illustrated by the chart below) may be found in the type of units built during the last boom and the type built during the present one. From 1922 through 1928, from 56 per cent to 61 per cent of the units started were single-family units, 18 per cent to 32 per cent were multi-family units, and from 10

(cont. on page 246)



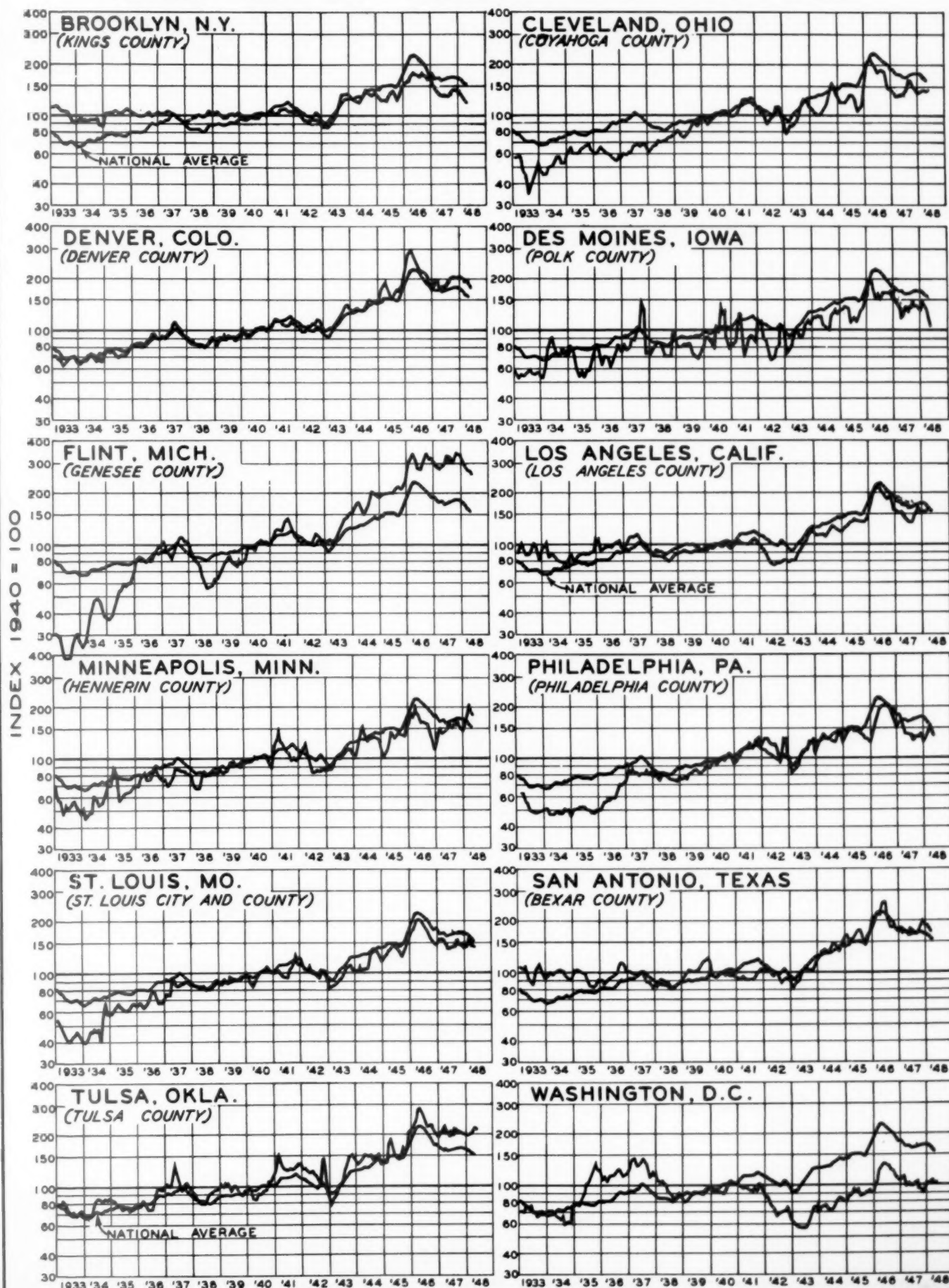
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THE MARRIAGE BOOM RECEDES (cont. from page 231)

Diego, California; and Norfolk, Virginia. All six were either important training centers, ports of embarkation, or both.

The cities which have shown the most precipitous decline from 1946 to 1947 are: Wilmington, 39 per cent; Wichita, 33 per cent; Jacksonville, 33 per cent; Syracuse, 30 per cent; Kansas City (Kansas and Missouri), 28 per cent; San Diego, 25 per cent; and Knoxville, 25 per cent.

Seven cities showed increases in 1947 over 1946: Detroit, 16 per cent; Utica, 8 per cent; South Bend, 5 per cent; Toledo, 3 per cent; Worcester, 1-1/2 per cent; Louisville, 1 per cent; and Omaha, 1/2 per cent. All but one of these seven cities have shown declines, however, during the first quarter of 1948.

COMPARISON OF TWO CONSTRUCTION BOOMS (cont. from page 243)

per cent to 19 per cent were two-family units. During the present boom between 85 per cent and 89 per cent of the units started are single-family units, while only 7 per cent to 10 per cent are multi-family (four-family and larger), and between 4 and 5 per cent are two-family units.

This difference becomes even more pointed when the rate of construction of the various type units is considered. During the last boom, multi-family units were erected at a rate of between 7.2 and 12.0 units per 1000 nonfarm families, while in the present boom the rate is from 0.5 to 2.6 units per 1000 families. Single-family units were erected at a rate of between 20.0 and 28.4 units per 1000 nonfarm families during the twenties, and are approaching that rate during the present boom. Inasmuch as multi-family units are usually built during the later period of a boom, we may still see a large increase in this type of building, but we believe that the rate will certainly not approach that of the last boom.

There are several possible explanations for this difference. During the boom of the twenties, financing of single-family dwelling units was much more difficult than it is today. In the past few years the low-equity, low-interest, long-term amortized loan has made it possible for a larger number of families to build or buy their own home. Even more liberal financing under the GI Bill has increased this number since the end of the war. Insofar as multi-family units are concerned, their financing was comparatively easier than at present. The wide-open financing of multi-family buildings during the twenties led to such widespread default in the thirties that in view of today's high costs, these projects are scrutinized and appraised more closely than before. Realistic lenders see that at today's construction costs, the number of new multi-family buildings that offer safe loans is comparatively small. This is especially true in view of the competition new buildings will have to meet from older buildings that were built at much lower costs. These older, lower-cost buildings are able to operate on cheaper rent schedules than the ones built in the past few years. Therefore, when vacancies begin appearing once again many of these new buildings with their high "break even" point will be unable to meet the competition and will go through foreclosure.